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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 001280

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AF/S FOR S. HILL
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN

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TAGS: ECON PGOV PREL ZI
SUBJECT: LOOK EAST "SUCCESSES" FALL FLAT

Classified By: Ambassador Christopher W. Dell under Section 1.4 b/d

Summary

¶11. (C) In the GOZ's most recent flirtation with countries to its east, state-controlled media on October 10 reported that a Russian delegation had signed memorandums of understanding (MOUs) with the GOZ totaling US\$300 million. South African journalists checking into the contracts, however, could not find evidence that the Russian company involved was legitimate and a GOZ official privately told us the visitors put the breaks on any investment due to the lack of investment guarantees. Would-be Russian investors appear to have come to the same conclusion as the Chinese who, according to a ruling party parliamentarian, recently told the GOZ to follow their model, and deregulate the market and embrace reform. End Summary.

GOZ Signs MOUs With Briefcase Company?

¶12. (U) A delegation of 48 Russian businesspersons and journalists visited Zimbabwe in early October, and on October 10 reportedly signed several MOUs worth US\$300 million with the GOZ. Trumpeting the agreements, the state-controlled Herald newspaper said the Russian investment company Rusavia Trade would build a commuter rail link between Harare and the nearby dormitory town of Chitungwiza, construct a freight terminal at the Harare international airport, improve two airfields near Victoria Falls, and develop a coalfield near Hwange.

¶13. (U) Subsequent investigations by South African journalists, however, have shown that the Russian company that signed the MOUs appears to be little more than a briefcase company. Phone numbers for the company distributed

at a Harare press conference were inoperable and Russian business insiders contacted by the journalists had never heard of the company.

¶4. (C) Meanwhile, Deputy Reserve Bank of Zimbabwe Governor Nick Ncube) a fluent Russian-speaker who was involved in the visit - told the DCM in early October that in previous negotiations reputable Russian investors had insisted on investment guarantees before sinking large sums of money into Zimbabwe. Since the GOZ had been unwilling to provide such guarantees, no investment had been forthcoming. Ncube conceded that the delegation's visit would also amount to little.

Chinese Limit Aid, Quietly Press For Reform

¶5. (C) ZANU-PF MP Walter Mzembi on October 4 told econoff that he had just returned from China as part of a GOZ delegation seeking financial assistance. The Chinese, however, refused to offer any loans and instead pressed the Zimbabweans to reform. Mzembi said the message from their Chinese interlocutors was to follow China's example and embark on free market-oriented reforms. The ruling party legislator said he was impressed with the manner in which China had "copied the West" and agreed that the GOZ needed to embrace reforms.

Comment

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¶6. (C) For some time, the GOZ has been touting its "Look East" policy as part of an economic rescue strategy. The Russian MOU is but the latest example of the government's smoke and mirrors that has included several announced but unexecuted MOUs with investors from the "East." Instead, Chinese, Russian, Korean, Indian and other Asian investors, like investors from the rest of the world, have wisely avoided the grossly mismanaged Zimbabwean economy in favor of more reform-minded countries in the region and elsewhere. Despite GOZ claims to the contrary, the bottom-line is that the "Look East" policy has failed to attract foreign capital. This only further scuttles the GOZ's most recent recovery plan to bring in US\$2.5 billion in investment, which some GOZ officials have publicly conceded has been a failure.

¶7. (C) Mzembi's account is the first indication we have seen that the Chinese Government is pressing Zimbabwe on reforms. It is a welcome development but would of course have more impact if the Chinese (and the Russians for that matter) were to join the international community's calls for change here. That said, despite the mutual talk of comradeship and the political cover China provides the GOZ, neither it nor any other "Eastern" country will act to bail out the GOZ.

DELL